

FITCH RATES NASHUA, NH'S GO REFUNDING BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-09 March 2012: Fitch Ratings has assigned an 'AAA' rating to the following City of Nashua, NH's (the city) general obligation (GO) bonds:

--\$22.45 million GO refunding bonds, series 2012.

The bonds are scheduled to price competitively on March 14, 2012.

In addition, Fitch affirms the following ratings:

- --\$0.6 million, outstanding GO bonds, series 1999, at 'AAA';
- --\$5.4 million, outstanding GO capital improvement bonds, series 2010, at 'AAA';
- --\$13.5 million, GO capital improvement bonds, series 2011 at 'AAA';
- --\$150 million, GO Pennichuck Corporation acquisition bonds, at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The bonds are unlimited tax general obligations of the city.

KEY RATING DRIVERS

STRONG FINANCIAL MANAGEMENT: City management have made appropriate spending cuts in order to keep tax rates under control, address increasing employee costs and maintain fund balances within policy levels.

DIVERSE AND EXPANDING ECONOMIC BASE: The city's economy continues to see growth and development and is a key center within the state for business and government.

STRONG RESERVE FUND LEVELS: Even with a slight decline in fiscal 2011, reserve funds remain healthy and provide financial flexibility if pressures should arise.

ABOVE-AVERAGE SOCIOECONOMIC FACTORS: The local economy is diverse with good wealth indicators and below-average unemployment rates.

MANAGEABLE DEBT BURDEN: The city's debt burden including the series 2012 Pennichuck acquisition bonds is moderate to high but taking into account the self supporting nature of the Pennichuck acquisition bonds and state grants for school debt, debt levels are low.

DIVERSIFIED TAX BASE: The top 10 taxpayers represent a modest 8% of the taxbase, and the city's acquisition of the common stock of Pennichuck (the second largest taxpayer) earlier this year does not exempt Pennichuck from future property tax payments.

CREDIT PROFILE

ABOVE-AVERAGE SOCIOECONOMIC FACTORS

The city is located on the southern border of the state of New Hampshire, 34 miles northwest of Boston. The local economy serves as a regional hub for retail with two very large retail shopping malls, which provide tax-free shopping for New Englanders. The city has emerged as a regional center for medical services and is home to a diverse group of international companies including Oracle, Dell, Fidelity Investments, and BAE Systems. The city has two industrial parks and is

experiencing continued new development.

The city's demographics are positive, with unemployment levels having declined to 5.7% as of December 2011 from 6.1% a year prior. Wealth levels exceed both state and national averages. The city's population of 86,494 has remained relatively flat since 2000. A recent revaluation in 2009 resulted in a 10% decline in assessed value (AV) for fiscal 2010, reflecting losses in the residential and commercial sectors, but AV has since increased moderately by 1.3% to \$8.5 billion for fiscal 2012.

A decline in AV does not affect the city's ability to raise its tax rate, but there is a cap on the city's total appropriations. Annual appropriations cannot exceed the three-year average of the Northeast Region CPI percentage over the previous year's budget, in accordance with the voter-approved Budget Control Charter Amendment passed in 1993. An exemption of this appropriation limit is permitted for all capital expenditures and bonded debt with a two-thirds vote from the city's board of aldermen. Top 10 taxpayer concentration is modest at 8%.

STRONG FINANCIAL MANAGEMENT

The city has managed recent revenue declines and rising employee costs through prudent cost cutting measures and achievement of successful negotiations with certain of its bargaining units. Property taxes, which represent 72% of general fund revenues, have been increased responsibly, and below the budget cap which was 3.4%, 2.2% and 2% of the prior year's levy in fiscal 2010, 2011 and 2012, respectively.

For fiscal 2011, the city budget increased by 2.1% compared to 2.3% in fiscal 2010, and the city's general fund experienced a \$4 million positive variance in expenditures. Revenues came in less than budgeted by approximately \$1.5 million due to continued underperformance of local revenues and investment income. The city had appropriated \$4.3 million of general fund balance (which is its customary practice), but only had a \$1 million decline in unassigned fund balance due to the positive expenditure variance. The fiscal 2011 deficit of \$4.4 million after transfers, resulted in an unassigned fund balance of \$25.6 million, approximately 11% of budgeted spending and in excess of the city's 10% undesignated fund balance policy. The city implemented GASB 54 reporting rules in fiscal 2010 and reported a total unrestricted fund balance (committed, assigned and unassigned) of \$45.3 million for fiscal 2011, or a strong 19% of general fund spending.

The city's fiscal 2012 budget increased by only 1.7% over 2011, in large part due to a 3% decrease in all departmental operating budgets (excluding school and technology). The \$227 million budget was under the spending cap by \$978,669. Notable expenditure increases were incurred for pensions (up 20%), due mostly to the state's elimination of the employer contribution subsidy, and increasing employee healthcare costs. The city has worked with its insurance carriers to reduce premiums and successfully negotiated healthcare and salary concessions with the bulk of its workforce.

Management reports that expenditures are tracking to budget or slightly better and due to more conservative estimates on certain revenue items, the city should use less than the \$4.3 million of appropriated fund balance used to offset tax increases. Fitch considers this projection reasonable based on management's history of prudent and conservative budgeting practices. The city continues to maintain contributions to its capital reserve funds to support equipment and fleet replacements and other city and school improvements.

The city's fiscal 2013 budget is in preliminary stages but officials have indicated that the city's budget cap is 1.7% for fiscal 2013. Management has indicated to Fitch it intends to stay within this cap (which equates to the budget increase in fiscal 2012) and will not seek an override. To help achieve this budget, city department heads and the school district have been asked to keep expenditure increases at no greater than 1%. Additionally, pension contribution rates for the state system are set biannually and will be the same as in fiscal 2012 with only an adjustment made for any wage increases. The city's health insurance costs will rise modestly but costs are being controlled through plan changes and increased employee contribution rates recently implemented.

NET DEBT LEVELS ARE LOW AND PENSIONS COSTS ARE MANAGEABLE

The city's debt ratios (net of estimated state school grant reimbursements and payments from

Pennichuck Corporation, the city owned water company), remain low at 1.6% of fiscal 2011 equalized AV and \$1,623 per capita. Amortization is above-average, with 57% of par retired in 10 years. The city typically issues \$5 million-\$10 million in bonds to support capital needs every two years and expects to issue bonds in early 2013 of approximately \$6.5 million to support these needs.

The city issued \$150 million in GO bonds to complete the acquisition of the common stock of Pennichuck Corporation. See Fitch's new issue report for Nashua, NH, GO Pennichuck Acquisition Bonds dated Jan. 11, 2012 for additional information on the city's acquisition of the water company. The Pennichuck acquisition bond debt service will be supported by utility revenues of Pennichuck and its subsidiaries. A ratemaking structure expected to provide sufficient revenues to support the debt service on the GO bonds has been approved by the New Hampshire Public Utility Commission (the PUC). If revenues are insufficient, Pennichuck has access to a rate stabilization fund of \$5 million, but ultimately, the bonds are secured by the city's unlimited taxing power.

The city's non-public works employees participate in the state's pension system, and the city made an \$11.8 million contribution in fiscal 2011, 100% of its annual required contribution (ARC). As a result of the state's elimination of its pension cost sharing arrangement in fiscal 2012 (compared to 25% state funding in 2011), the city budgeted \$14.6 million in state plan pension costs. Public works employees participate in a city-managed single employer system. The fiscal 2011 ARC was \$755,000, which the city paid in full. Combined contributions for the city represented a manageable 6.8% of the fiscal 2012 general fund budget. The city plan is 83% funded, and the unfunded liability is \$6.5 million as of June 30, 2010.

For fiscal 2011, the city's annual other post-employment benefits cost was \$5.6 million, and the city contributed 41% of that amount. The unfunded liability was \$42 million as of June 30, 2010, the most recent valuation available.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, and National Association of Realtors.

Applicable Criteria and Related Research:

- -- 'Tax-Supported Rating Criteria' (Aug. 15, 2011);
- -- 'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842

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